

**SOUTH O'BRIEN
COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2004**

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
FOR THE YEAR ENDED JUNE 30, 2004
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SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
LIST OF PRINCIPAL OFFICIALS

Board of Education (Before September 2003 Election)

		Term Expires
Gene McDaniel	President	2004
Brad McDowell	Vice President	2003
Laura Lindquist	Board Member	2005
Bruce Billick	Board Member	2005
Bill Johannsen	Board Member	2003
Alice Haht	Board Member	2004
Phil Syndergaard	Board Member	2005

Board of Education (After September 2003 Election)

Brad McDowell	President	2006
Gene McDaniel	Vice President	2004
Sharla Rupert	Board Secretary	2004
Bruce Billick	Board Member	2005
Alice Haht	Board Member	2004
Phil Snydergaard	Board Member	2005
Laura Lundquist	Board Member	2005
Bill Johannsen	Board Member	2006

School Officials

Jerry Nichols	Superintendent	June, 2004
Julie Sampson	Secretary-Business Manager	June, 2004
Marty Weber	Treasurer	August, 2004

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

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Gene McDaniel	President	2004
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Alice Haht	Board Member	2004
Phil Syndergaard	Board Member	2005

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Brad McDowell	President	2006
Gene McDaniel	Vice President	2004
Sharla Rupert	Board Secretary	2004
Bruce Billick	Board Member	2005
Alice Haht	Board Member	2004
Phil Snydergaard	Board Member	2005
Laura Lundquist	Board Member	2005
Bill Johannsen	Board Member	2006

School Officials

Jerry Nichols	Superintendent	June, 2004
Julie Sampson	Secretary-Business Manager	June, 2004
Marty Weber	Treasurer	August, 2004



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INDEPENDENT AUDITORS' REPORT

To the Board of Education of
South O'Brien Community School District

We have audited the accompanying financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of the South O'Brien Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the South O'Brien Community School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of South O'Brien Community School District as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, during the year ended June 30, 2004, South O'Brien Community School District adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*; Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2004 on our consideration of the South O'Brien Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South O'Brien Community School District's basic financial statements. The supplementary information, included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Williams & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Le Mars, Iowa
August 20, 2004

South O'Brien Community School District Management Discussion and Analysis

The South O'Brien Community District provides this Management Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. Readers are encouraged to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operation.

2004 FINANCIAL HIGHLIGHTS

General fund revenues increased from \$5,778,476 in fiscal 2003 to \$5,979,209 in fiscal 2004, which General Fund expenditures decreased from \$6,063,950 in fiscal 2003 to \$5,755,968 in fiscal 2004. The District's General fund balance increased from \$646,877 in fiscal 2003 to \$870,118 in fiscal 2004, a 35% increase.

The increase in General fund revenue was attributable to an overall increase in property taxes and federal grants in fiscal 2004. The decrease in expenditures was due primarily to the move of Junior High classes to Paullina which resulted in a decrease of staff and other related expenditures, as well as a reduction of the number of bus routes.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides analytical overview of the District's financial activities.
- The District-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the District as a whole and present an overall view of the District's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the District's operations in more detail than the district-wide statements by providing information about the most significant funds.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required supplementary information further explains and supports the financial statements with comparison of District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds, Capital Project Funds, and Debt Service Fund.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

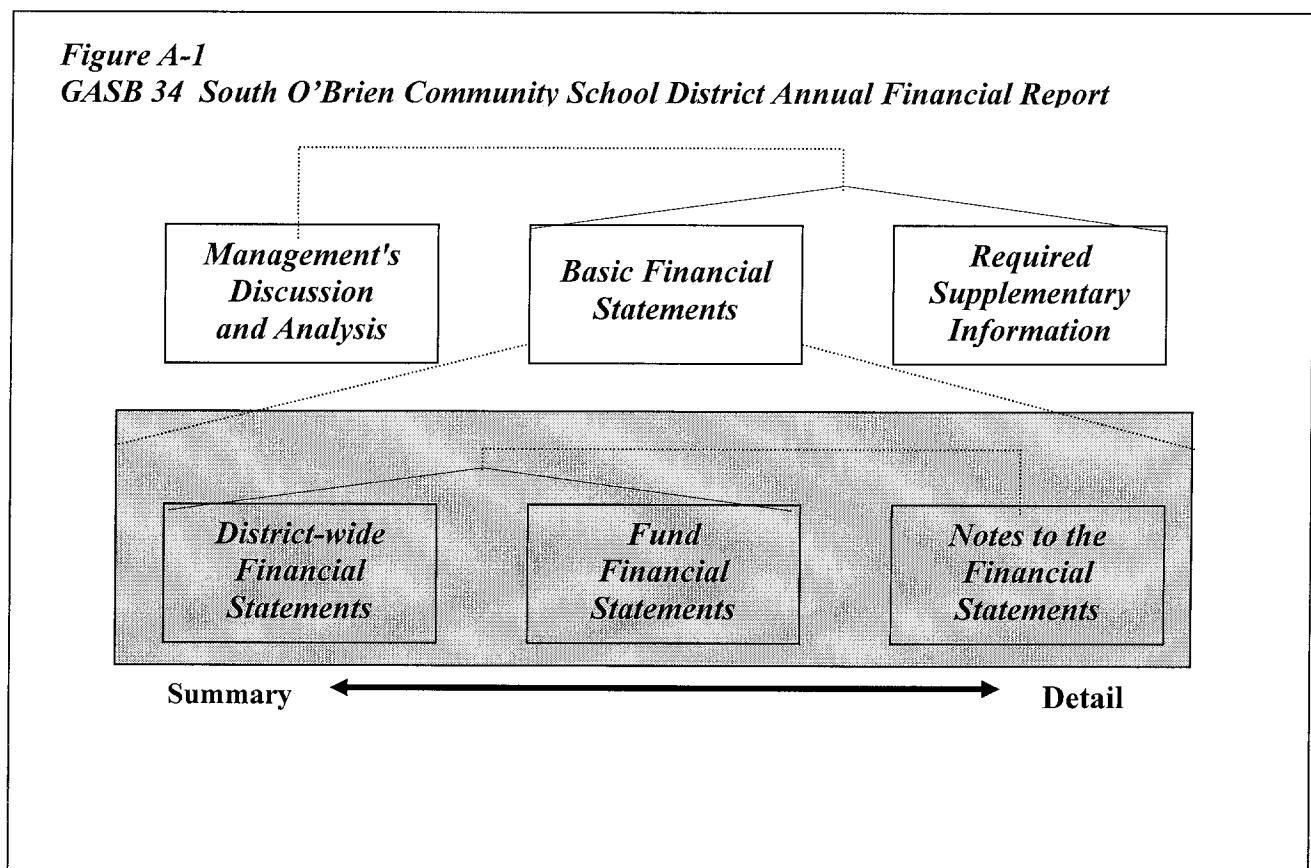


Figure A-2 below summarizes the major features of the District’s financial statements, including the position of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the District-wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

District-wide financial statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two District-wide statements report the District’s net assets and how they have changed. Net assets (the difference between the district’s assets and liabilities) are one way to measure the District’s financial health or position.

- Over time, increases or decreases in the District’s net assets are an indicator of whether its financial position is improving or deteriorating.

- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.
- Business-type activities: The District charges fees to help it cover the costs of certain services it provides. The District's food service program would be included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, (such as repaying its long term debts), or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- Governmental funds: Most of the District's basis services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether these are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund, Capital Project Fund, and Permanent Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. The District's enterprise funds (one type of proprietary) are the same as its business-type activities but provide more detail and additional information, such as cash flows.

The District currently has one enterprise fund, the school nutrition fund.

The required financial statements for proprietary funds include a statement of revenue, expenses and change in fund net assets and a statement of cash flows.

Reconciliations between the District-wide financial statements and the fund financial statements follow the fund financial statements.

DISTRICT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2004.

Figure A-3			
Condensed Statement of Net Assets			
	Governmental Activities 2004	Business type Activities 2004	Total District 2004
Current and other assets	\$ 6,123,551	\$ 23,986	\$ 6,147,537
Capital assets	1,735,224	23,790	1,759,014
Total assets	7,858,775	47,776	7,906,551
Current liabilities	3,674,816	8,311	3,674,816
Long-term liabilities	1,493,265	-	1,493,265
Total liabilities	5,168,081	8,311	5,176,392
Net assets			
Invested in capital assets, Net of related debt	1,735,224	23,790	1,759,014
Restricted	127,049	-	127,049
Unrestricted	828,421	15,675	844,096
Total net assets	\$ 2,690,694	\$ 39,465	\$ 2,730,159

Figure A-4 shows the change in net assets for the year ended June 30, 2004.

Figure A-4			
Changes in Net Assets			
	Governmental Activities 2004	Business type Activities 2004	Total District 2004
Revenues:			
Program Revenues:			
Charges for service	\$ 592,881	\$ 132,783	\$ 725,664
Operating grants, contributions, and restricted interest	583,713	129,670	713,383
Capital grants, contributions, and restricted interest	1,276	-	1,276
General Revenues:			
Property tax	3,370,295	-	3,370,295
Local option sales and service tax	123,948	-	123,948
Unrestricted state grants	2,122,230	-	2,122,230
Unrestricted investment earnings	18,864	-	18,895
Other	24,512	547	25,059
Use of money and property	3,540	31	3,540
Total Revenues	6,841,259	263,031	7,104,290
Program expenses			
Governmental activities:			
Instruction	3,736,163	-	3,736,163
Support services	2,113,323	-	2,113,323
Non-instructional	-	230,048	230,048
Other expenses	630,520	-	630,520
Total expenses	6,480,006	230,048	6,710,054
Change in net assets	\$ 361,253	\$ 32,983	\$ 394,236

Property tax and state aid account for 77% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,841,259 and expenses were \$6,480,006. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,736,163	\$ 2,871,140
Support Services	2,113,323	2,042,138
Other expenses	630,520	388,858
Total	\$ 6,480,006	\$ 5,302,136

- The cost financed by users of the District's programs was \$592,881.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$584,989.
- The net cost of governmental activities was financed with \$3,370,295 in property and other taxes and \$2,122,230 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$263,031 and expenses were \$230,048. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,057,950 above last year's ending fund balances of \$759,671.

Governmental Fund Highlights

- The General Fund balance increased from \$646,877 to \$870,118, due in part to a bus route reduction and a staff decrease due to classes being moved to a different center.
- The Management Levy fund balance increased from \$53,796 in fiscal 2003 to \$79,109 in fiscal 2004.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from a deficit of \$4,883 in fiscal 2003 to a deficit of \$24,936 in fiscal 2004. This deficit will be funded through future property tax revenue.
- The Capital Projects Lost Fund balance at June 30, 2004 was \$75,825. This is a new fund established to account for the proceeds from the new local sales and services tax which began on January 1, 2004.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$667 at June 30, 2003 to \$39,465 at June 30, 2004, this is due in part to reclassification of assets and an increase of federal/state aid received.

GENERAL FUND BUDGETING HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following a required public notice and hearing. The budget may be amended during the year utilizing statutory prescribed procedure. The District's budget is prepared on the cash basis. During the year expenditures did not exceed the certified amounts.

There was some small variance in the District's budget in comparison to actual results. Total actual revenue was 3.75 % less than budgeted, while total actual expenditures were 12.6 % less than budgeted. Detail can be found in the supplementary information section of the report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2004, the District had invested \$7,220,667 in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see figure A-6) More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year equaled \$322,982.

Figure A-6
Capital Assets, net of Depreciation

	Governmental Activities 2004	Business type Activities 2004	Total District 2004
Land	\$ 51,351	-	\$ 51,351
Buildings	3,922,602	-	3,922,602
Improvements other than buildings	275,140	-	275,140
Furniture and equipment	2,807,093	\$ 164,481	2,971,574
Total	\$ 7,056,186	\$ 164,481	\$ 7,220,667

Long- Term Debt

At year-end, the District had \$57,265 in general fund loans, and \$52,000 in early retirement obligations.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared, the District was aware of the following existing circumstances that could affect its financial health in the future.

- The SILO Tax was passed in O'Brien County on August 12, 2003. This one cent sales tax is for a period of 10 years. It will terminate on December 31, 2013. Estimated yearly receipts are approximately \$300,000.
- A \$200,000 cash reserve levy has enabled the District to improve cash flow.
- State Aid was reduced during FY04 by 2.5 percent. This represented a revenue reduction of \$73,025.
- The closing of the Sutherland building on June 30, 2004 will enable the District to realize a reduced financial obligation estimated to be \$150,000 yearly.
- Enrollment decline has been significant during the past seven years. The decline between 2003 and 2004 was the second greatest decline since the District reorganized. The enrollment declined by 52.5 students over the seven year period.
- During Fiscal Years 2001, 2002, 2003 the district experienced a deficit each of these years. The deficit during this period based on Modified Accrual Basis was (\$670,443).
- Other noteworthy factors:
 - The District began receiving revenue from the one cent sales tax in January 2004.
 - The District began receiving revenue from a new ten year PPEL levy in July 2003.
 - A property asset management program was implemented during FY04.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's patrons, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the revenue it receives. If you have questions about this report or need additional financial information, contact Jerry Nichols, Supt. or Julie Sampson, School Business Affairs, South O'Brien Community School District, 206 S. Rutledge St., Paullina, Iowa.

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SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2004

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and Pooled Investments	\$ 1,420,555	\$ 11,533	\$ 1,432,088
Receivables:			
Property Tax	52,501		52,501
Succeeding Year Property Tax	3,068,153		3,068,153
Accrued Interest	20		20
Accounts	14,584	229	14,813
Due from Other Governments	164,076		164,076
Restricted Assets:			
ISCAP Investments	1,392,957		1,392,957
ISCAP Interest Receivable	5,735		5,735
Inventories	4,970	12,224	17,194
Land	51,351		51,351
Infrastructure, Property and Equipment, Net of Accumulated Depreciation (Note 6)	1,683,873	23,790	1,707,663
Total Assets	<u>7,858,775</u>	<u>47,776</u>	<u>7,906,551</u>
LIABILITIES			
Accounts Payable and Accrued Liabilities	86,885	66	86,951
Salaries and Benefits Payable	498,259	8,245	506,504
Accrued Interest Payable	3,102		3,102
Deferred Revenue - Succeeding Year Taxes	3,068,153		3,068,153
ISCAP Unamortized Premium	9,721		9,721
ISCAP Interest Payable	8,696		8,696
Noncurrent Liabilities:			
Debt Due Within One Year:			
ISCAP Warrants Payable	1,384,000		1,384,000
Notes Payable	11,454		11,454
Early Retirement Payable	8,000		8,000
Due in More Than One Year:			
Notes Payable	45,811		45,811
Early Retirement Payable	44,000		44,000
Total Liabilities	<u>5,168,081</u>	<u>8,311</u>	<u>5,176,392</u>
NET ASSETS			
Invested in Capital Assets,			
Net of Related Debt	1,735,224	23,790	1,759,014
Restricted for:			
Management Levy	79,109		79,109
Other Special Revenue Purposes	47,940		47,940
Unrestricted	828,421	15,675	844,096
Total Net Assets	<u>\$ 2,690,694</u>	<u>\$ 39,465</u>	<u>\$ 2,730,159</u>

See Accompanying Notes to Financial Statements

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants Contribution
Governmental Activities:			
Instruction:			
Regular Instruction	\$ 2,142,270	\$ 147,987	\$ 330,229
Special Instruction	1,071,735	25,551	168,845
Other Instruction	522,158	168,676	22,959
Support Services:			
Student Services	303,429		4,140
Instructional Staff Services	369,639		
Administration Services	593,125		
Operation and Maintenance	495,509		
Transportation Services	351,621	9,005	57,540
Other Expenditures:			
Facilities Acquisition and Construction Services	373,557		
Long-term Debt Interest	15,301		
AEA Flowthrough	241,662	241,662	
Total governmental activities	<u>6,480,006</u>	<u>592,881</u>	<u>583,713</u>
Business Type Activities			
Non-instructional Programs			
Food Service Operations	<u>230,048</u>	<u>132,783</u>	<u>129,670</u>
Total	<u><u>\$ 6,710,054</u></u>	<u><u>\$ 725,664</u></u>	<u><u>\$ 713,383</u></u>
General Revenues:			
Property Tax Levied For:			
General Purposes			
Capital Outlay			
Local Option Sales Tax			
Unrestricted State Grants			
Unrestricted Investment Earnings			
Use of Money and Property			
Other			
Total general revenues			
Change in net assets			
Net assets - beginning			
Net assets - ending			

See Accompanying Notes to Financial Statements

Net (Expense) Revenue and Changes in Net Assets			
Capital Grants Contributions	Governmental Activities	Business Type Activities	Total
	\$ (1,664,054)		\$ (1,664,054)
	(877,339)		(877,339)
\$ 776	(329,747)		(329,747)
500	(298,789)		(298,789)
	(369,639)		(369,639)
	(593,125)		(593,125)
	(495,509)		(495,509)
	(285,076)		(285,076)
	(373,557)		(373,557)
	(15,301)		(15,301)
1,276	(5,302,136)		(5,302,136)
		\$ 32,405	32,405
\$ 1,276	(5,302,136)	32,405	(5,269,731)
	2,944,313		2,944,313
	425,982		425,982
	123,948		123,948
	2,122,230		2,122,230
	18,864		18,864
	3,540	31	3,571
	24,512	547	25,059
	5,663,389	578	5,663,967
	361,253	32,983	394,236
	2,329,441	6,482	2,335,923
\$	2,690,694	\$ 39,465	\$ 2,730,159

See Accompanying Notes to Financial Statements

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
Governmental Funds
June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and Pooled Investments	\$ 1,180,520	\$ 240,035	\$ 1,420,555
Receivables:			
Property Tax	44,310	8,191	52,501
Succeeding Year Property Tax	2,623,321	444,832	3,068,153
Accrued Interest		20	20
Accounts	14,584		14,584
Due from Other Funds	21,023		21,023
Due from Other Governments	135,469	28,607	164,076
Restricted Assets:			
Investments	1,392,957		1,392,957
Accrued Interest Receivable	5,735		5,735
Inventories	4,320	650	4,970
Total Assets	<u>5,422,239</u>	<u>722,335</u>	<u>6,144,574</u>
Liabilities and Equity			
Liabilities:			
Accounts Payable and Accrued Liabilities	26,531	60,354	86,885
Salaries and Benefits Payable	498,259		498,259
Early Retirement Payable		8,000	8,000
Due to Other Funds		21,023	21,023
Unearned Revenue	1,593	294	1,887
Deferred Revenue - Succeeding Year Taxes	2,623,321	444,832	3,068,153
ISCAP Unamortized Premium	9,721		9,721
ISCAP Interest Payable	8,696		8,696
ISCAP Warrants Payable	1,384,000		1,384,000
Total Liabilities	<u>4,552,121</u>	<u>534,503</u>	<u>5,086,624</u>
Fund Balances:			
Reserved for:			
Scholarships		2,638	2,638
Inventory	4,320	650	4,970
Unreserved for:			
General Fund	865,798		865,798
Special Revenue Fund		108,719	108,719
Capital Project Fund		75,825	75,825
Total Fund Balances	<u>870,118</u>	<u>187,832</u>	<u>1,057,950</u>
Total Liabilities and Equity	<u>\$ 5,422,239</u>	<u>\$ 722,335</u>	<u>\$ 6,144,574</u>

See Accompanying Notes to Financial Statements

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
For the Year Ended June 30, 2004**

Amounts reported for Governmental Activities in the Statement of Net assets are different because:

Total Fund Balance - Governmental Funds (page 16)	\$ 1,057,950
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,735,224
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(3,102)
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds	1,887
Long-term liabilities, including notes payable, and early retirement payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(101,265)</u>
Total Net Assets - Governmental Activities (page 13)	<u><u>\$ 2,690,694</u></u>

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
Year Ended June 30, 2004

	General	Other Governmental Funds	Total Governmental Funds
Revenue:			
Local Sources:			
Local Tax	\$ 2,795,739	\$ 699,637	\$ 3,495,376
Tuition	107,411		107,411
Other	81,169	163,174	244,343
Intermediate Sources	50,912		50,912
State Sources	2,652,557	429	2,652,986
Federal Sources	291,421		291,421
Total Revenue	<u>5,979,209</u>	<u>863,240</u>	<u>6,842,449</u>
Expenditures:			
Current:			
Instruction:			
Regular Instruction	2,252,430	20,849	2,273,279
Special Instruction	1,071,735		1,071,735
Other Instruction	351,100	161,864	512,964
Support Services:			
Student Services	296,729	6,700	303,429
Instructional Staff Services	311,651		311,651
Administration Services	500,985	91,894	592,879
Operation and Maintenance	465,532	18,697	484,229
Transportation Services	264,144	98,719	362,863
Other Expenditures:			
Facilities Acquisition and Construction Services		373,558	373,558
Long-term Debt:			
Principal		11,454	11,454
Interest and Fiscal Charges		4,467	4,467
AEA Flowthrough	241,662		241,662
Total Expenditures	<u>5,755,968</u>	<u>788,202</u>	<u>6,544,170</u>
Excess of Revenues Over Expenditures	<u>223,241</u>	<u>75,038</u>	<u>298,279</u>
Other Financing Sources (Uses):			
Transfers In		15,921	15,921
Transfers Out		(15,921)	(15,921)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	223,241	75,038	298,279
Fund Balances - Beginning of Year	646,877	112,794	759,671
Fund Balances - End of Year	<u>\$ 870,118</u>	<u>\$ 187,832</u>	<u>\$ 1,057,950</u>

See Accompanying Notes to Financial Statements

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 18)	\$	298,279
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Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense exceeded capital outlays in the current year as follows:

Expenditures for capital assets	\$ 413,747		
Depreciation expense	<u>(318,214)</u>		95,533

Capital contributions reported in the Statement of Activities that do not provide current financial resources and are not reported as revenues in the funds.		500
--	--	-----

Accrued interest expense that does not require current financial resources		620
--	--	-----

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement		(44,000)
------------------	--	----------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues		(1,133)
--	--	---------

The repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. The principal paid on long-term debt during the current year was as follows:

Notes Payable		<u>11,454</u>
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Change in net assets of governmental activities (page 15)	\$	<u><u>361,253</u></u>
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SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Fund
June 30, 2004

	Business Type Activity School Nutrition Fund
ASSETS	
Current Assets:	
Cash and Pooled Investments	\$ 11,533
Accounts Receivables	229
Inventories	12,224
Total Current Assets	<u>23,986</u>
Noncurrent Assets:	
Infrastructure, Property and Equipment, Net of Accumulated Depreciation (Note 6)	<u>23,790</u>
Total Noncurrent Assets	<u>23,790</u>
Total Assets	<u>47,776</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities	66
Salaries and Benefits Payable	<u>8,245</u>
Total Liabilities	<u>8,311</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	23,790
Unrestricted	15,675
Total Net Assets	<u>\$ 39,465</u>

See Accompanying Notes to Financial Statements

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2004

	Business Type Activity
	School Nutrition Fund
Operating Revenues:	
Local Sources:	
Charges for Services	\$ 132,783
Miscellaneous	547
	<hr/>
Total Operating Revenue	133,330
	<hr/>
Operating Expenditures:	
Non-instructional programs:	
Food Service Operations:	
Salaries	74,036
Benefits	26,053
Services	3,986
Supplies	121,076
Other	129
Depreciation	4,768
	<hr/>
Total Operating Expenses	230,048
	<hr/>
Operating (Loss)	(96,718)
	<hr/>
Non-Operating Revenues :	
Interest Income	31
State Lunch Reimbursements	3,608
National School Lunch Program	86,390
Federal Food Commodities Received	39,672
	<hr/>
Total Non-Operating Revenues	129,701
	<hr/>
Change in Net Assets	32,983
	<hr/>
Net Assets Beginning of Year	667
Prior Year Adjustment	5,815
	<hr/>
Net Assets Beginning of Year, Restated	6,482
	<hr/>
Net Assets End of Year	\$ 39,465
	<hr/> <hr/>

See Accompanying Notes to Financial Statements

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
Proprietary Fund
For the Year Ended June 30, 2004

	Business Type Activity School Nutrition Fund
Cash Flows from Operating Activities:	
Cash Received from Sale of Lunches and Breakfasts	\$ 132,938
Cash Received from Miscellaneous Operating Activities	547
Cash Paid for Employees for Services	(97,851)
Cash Paid to Suppliers for Goods and Services	(93,107)
Total Cash Used by Operating Activities	<u>(57,473)</u>
Cash Flows from Capital & Related Financing Activities:	
Acquisition of Capital Assets	<u>(5,877)</u>
Cash Flows from Non-Capital & Related Financing Activities:	
State Grants Received	3,608
Federal Grants Received	86,390
Total Cash Provided by Non-Capital & Related Financing Activities	<u>89,998</u>
Cash flows from Investing Activities:	
Interest on Investments	31
Cash Payments to General Fund for Cash Deficit	(15,231)
Total Cash Used by Investing Activities	<u>(15,200)</u>
Net Increase in Cash and Cash Equivalents	11,448
Cash and Cash Equivalents at Beginning of Year	<u>85</u>
Cash and Cash Equivalents at End of year	<u><u>11,533</u></u>
Reconciliation of Operating (Loss) to Net Cash (Used) in Operating Activities:	
Operating (Loss)	(96,718)
Adjustments to reconcile net operating loss to net cash used by operating activities:	
Depreciation Expense	4,768
Commodities Used	30,781
(Increase) decrease in assets and increase (decrease) in liabilities:	
Inventory	1,237
Accounts Receivable	155
Salaries and Benefits Payable	2,238
Accounts Payable	66
Net Cash (Used) in operating activities	<u><u>\$ (57,473)</u></u>
Non-Cash Investing, Capital and Financing Activities	
Federal food commodities received	<u><u>\$ 39,672</u></u>

See Accompanying Notes to Financial Statements

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The South O'Brien Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Paullina, Primghar and Sutherland, Iowa, and the predominate agricultural territory in O'Brien, Cherokee, and Clay Counties in Iowa. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, South O'Brien Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. In June, 2002, the District established the South O'Brien Community School District Foundation by appointing a board of trustees to incorporate a foundation under the Iowa Non-Profit Corporation Act, Iowa Code Chapter 504A. The focus of the Foundation is exclusively for charitable, scientific and educational purposes of the District. The financial activity of the Foundation is included in the financial statements of the South O'Brien Community School District as a component unit for the year ended June 30, 2004. The Foundation has elected a December 31, fiscal year-end and, therefore, the activity of the Foundation included in these financial statements is for the fiscal year ended December 31, 2003.

These financial statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP) that apply to governmental units. All funds created under the authority of the State Code of Iowa, the operations of which are under the control of the District's governing body, and by financial reporting standards for governmental units are included herewith.

The Governmental Accounting Standards Board is responsible for establishing U.S. GAAP for state and local government through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The District applies only the applicable FASB pronouncements issued prior to November 30, 1989 in accounting and reporting its proprietary operations. The more significant accounting policies established in U.S. GAAP and used by the District are discussed below.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain significant changes in the statement include the following:

- For the first time:
 - a. A Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and result of operations.
 - b. Financial statements prepared using full accrual accounting for all the District's activities.
 - c. A change in the fund financial statements to focus on the major funds of the District.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Also approved by GASB was Statement No. 38, *Certain Financial Statement Note Disclosures*.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements). The District has implemented the statements for the year ended June 30, 2004.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the O'Brien County Assessor's Conference Board.

B. Basic Financial Statements- Government-Wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The District's general, special revenue, debt service and capital project funds are classified as governmental activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The District first uses restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions and business-type activities. The functions are also supported by general government expenses (including depreciation) by related program revenues, operating grants, and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

C. Fund Financial Statements

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three types: governmental, proprietary and fiduciary. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column in the fund financial statements. GASB No. 34 sets forth minimum criteria for the determination of major funds. The various funds reported in the financial statements are grouped into fund types as follows:

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities, except those accounted for in proprietary funds, are accounted for through governmental funds. The measurement focus is on determination of financial position and changes in financial position, rather than upon net income determination. The following is a description of the governmental funds of the District.

General Fund – The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund accounts for the instructional and most of the support service programs of the District's operations. Revenue of the General Fund consists primarily of local property taxes and state government aid.

Special Revenue Fund – Special Revenue Funds account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specified purposes. Each of the District's Special Revenue Funds has been established to reflect restricted revenue sources provided to school districts by the Iowa State Statutes.

Debt Service Fund – The Debt Service Fund accounts for the accumulation of resources for and the payment of general long-term debt principal and interest.

Capital Projects Fund – The Capital Project Fund accounts for all resources used in the acquisition and construction of capital facilities.

Permanent Fund – The Permanent Fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, can be used for awarded scholarships.

PROPRIETARY FUND TYPES

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. Operating revenues and expenses are distinguished from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of enterprise funds are charges to customers for services. Operating expenses consist of cost of sales and services, administrative expenses and depreciation on capital assets. The U.S. generally accepted accounting principles used are those applicable to similar businesses in the private sector.

Enterprise Funds – Enterprise Funds are used to account for operations: (a) which are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The District reports the following major governmental funds:

General Fund – See the description on the previous page. The General Fund is always considered to be a major fund.

The District reports the following major enterprise funds:

School Nutrition – Accounts for the food service operations of the District.

D. Basis of Accounting/Measurement Focus

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year-end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Prepaid Items – Payments made to vendors for services that will benefit periods beyond June 30, 2004 are recorded as prepaid items.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of \$500 for governmental school nutrition capital assets.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings and Land Improvements	15-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end, excluding grant receivables.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-Term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

NOTE 2 – CASH AND POOLED INVESTMENTS

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2004

NOTE 2 – CASH AND POOLED INVESTMENTS (CONTINUED)

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies, certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2004, the carrying amount of the District's deposits were as follows:

	<u>Carrying Balance</u>	<u>Bank Balance</u>
All Fund Types	\$ 1,432,088	\$ 1,657,681

NOTE 3 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>
Special Revenue:		
Physical Plant & Equipment Levy	Debt Service	\$ 15,921
Total		<u>\$ 15,921</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

NOTE 4 – IOWA SCHOOL CASH ANTICIPATION PROGRAM (ISCAP)

The District participates in the Iowa School Cash Anticipation (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semi-annual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semi-annual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2003-04B	1/30/04	1/28/05	\$ 1,054,130	\$ 5,735	\$ 1,047,000	\$ 8,696
2004-05A	6/30/04	6/30/05	338,827	-	337,000	-
			<u>\$ 1,392,957</u>	<u>\$ 5,735</u>	<u>\$ 1,384,000</u>	<u>\$ 8,696</u>

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2004

NOTE 4 – IOWA SCHOOL CASH ANTICIPATION PROGRAM (ISCAP) (CONTINUED)

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ -	\$100,000	\$100,000	\$ -

The Warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04B	2.000%	1.310%
2004-05A	3.000%	2.463%

NOTE 5 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 51,351	-	-	\$ 51,351
Construction in Progress	52,514	-	\$ 52,514	-
Total capital assets not being depreciated	103,865	-	52,514	51,351
Capital assets being depreciated:				
Buildings	3,720,750	\$ 201,852	-	3,922,602
Improvements other than buildings	275,140	-	-	275,140
Furniture and equipment	2,702,073	212,395	107,375	2,807,093
Total capital assets being depreciated	\$ 6,697,963	\$ 414,247	\$ 107,375	\$ 7,004,835
Less: Accumulated Depreciation for:				
Buildings	\$ 2,781,841	\$ 76,869	-	\$ 2,858,710
Improvements other than buildings	256,264	11,364	-	267,628
Furniture and equipment	2,072,018	229,981	\$ 107,375	2,194,624
Total Accumulated Depreciation	5,110,123	318,214	107,375	5,320,962
Total capital assets being depreciated, net	1,587,840	96,033	-	1,683,873
Governmental activities capital assets, net	1,691,705			1,735,224

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2004

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Business-type Activities:				
Furniture and equipment	158,604	5,877	-	164,481
Less: Accumulated Depreciation	135,923	4,768	-	140,691
Business-type activities capital assets, net	\$ 22,681	\$ 1,109	\$ -	\$ 23,790

Depreciation expenses was charged to the functions of the as follows:

Governmental Activities:

Regular Instruction	\$ 90,557
Other Instruction	9,750
Instructional Staff Services	124,654
Administration Services	246
Operation and Maintenance	11,917
Transportation Services	81,090

Total depreciation expenses – governmental activities \$ 318,214

Business-type activities:

Food Service Operations	<u>\$ 4,768</u>
-------------------------	-----------------

Reconciliation of Investment in Capital Assets:

	Governmental Activities	Business- Type Activities
Land	\$ 51,351	
Capital Assets (net of accumulated depreciation)	1,683,873	\$ 23,790
Investment in Capital Assets, Net of Related Debt	<u>\$ 1,735,224</u>	<u>\$ 23,790</u>

NOTE 6 – LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Loan Notes	\$ 68,719		\$ 11,454	\$ 57,265	\$ 11,454
Early Retirement	-	\$ 52,000	-	52,000	8,000
Governmental Activities Long-Term Liabilities	<u>\$ 68,719</u>	<u>\$ 52,000</u>	<u>\$ 11,454</u>	<u>\$ 109,265</u>	<u>\$ 19,454</u>

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2004

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

Detail of the District's June 30, 2004 Special Assessments debt with O'Brien County are as follows:

Year Ending June 30	Principal	Interest	Total
2005	\$ 11,454	\$ 3,608	\$ 15,061
2006	11,453	2,886	14,339
2007	11,453	2,165	13,618
2008	11,453	1,443	12,896
2009	11,453	721	12,175
Total	\$ 57,265	\$ 10,823	\$ 68,088

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be between the ages of 55 and 64 and have completed at least 20 years of service in the District. Employees must complete an application at least one full year in advance, and it is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a maximum of one-half of one percent of the employee's current teaching salary as a base salary which is multiplied by the number of years of service the employee has rendered to the District. This total amount shall be in addition to the amount provided for salary in the contract for the final year of employment. Early retirement benefits paid during the year ended June 30, 2004 totaled \$19,367. The cost of early retirement payments liquidated within 60 days is recorded as a liability of the Special Revenue Management Levy Fund in the fund's financial statements.

The non-current portion of the early retirement to recorded in the government-wide financial statements.

NOTE 7 – INTERFUND RECEIVABLES & PAYABLES

As of June 30, 2004, short-term interfund borrowings were as follows:

<u>Fund Due To</u>	<u>Fund Due From</u>	<u>Amount</u>
General	PPEL	\$ <u>21,023</u>

NOTE 8 – PRIOR PERIOD ADJUSTMENT

It was discovered during the implementation of GASB No. 34 and the initial depreciation of governmental assets that capital assets of \$101,810 with \$95,995 of accumulated depreciation has not been accounted for in the proprietary fund in the past. This correction has been made in the current year and results in a change in the beginning net assets of the proprietary fund in the amount of \$5,815.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2004

NOTE 9 – PENSION AND RETIREMENT BENEFITS

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits that are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$191,415, \$195,681, and \$196,807 respectively, equal to the required contributions for each year.

NOTE 10 – RISK MANAGEMENT

South O'Brien Valley Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 11 – AREA EDUCATION AGENCY

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$241,662 for the year ended June 30, 2004 and is recorded in the General Fund.

NOTE 12 – DEFICIT FUND BALANCE

As of June 30, 2004, the following fund had a deficit fund balance in the amount show:

Special Revenue:	
Physical, Plant, and Equipment Levy	<u>\$ 24,936</u>

The deficit will be funded through future property tax revenue.

NOTE 13 – SUBSEQUENT EVENT

On July 1, 2004, the School District sold the Sutherland school building and all related real estate to the City of Sutherland for the sum of \$1.00.

On July 19, 2004, the School District passed a resolution authorizing the issuance of \$1,740,000 School Infrastructure Local Option Sales and Services Tax revenue bond and \$1,000,000 General Obligation School Capital Loan Notes to finance the high school building addition.

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REQUIRED SUPPLEMENTARY INFORMATION

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SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL, GENERAL FUND (CASH BASIS)-
Year Ended June 30, 2004

General Fund				
	Budgeted Amounts		Actual	Variance with budget Favorable (Unfavorable)
	Original	Amended		
Receipts:				
Local Sources:				
Local Tax	\$ 2,803,545	\$ 2,803,545	\$ 2,805,104	\$ 1,559
Tuition	80,000	80,000	107,411	27,411
Other	228,500	228,500	78,745	(149,755)
Intermediate Sources	52,000	52,000	50,912	(1,088)
State Sources	2,764,918	2,764,918	2,641,723	(123,195)
Federal Sources	245,000	245,000	266,884	21,884
Total Revenues	<u>6,173,963</u>	<u>6,173,963</u>	<u>5,950,779</u>	<u>(223,184)</u>
Expenditures:				
Current:				
Instruction	4,226,000	4,226,000	3,932,089	293,911
Support Services	2,120,000	2,120,000	1,697,435	422,565
Other Expenditures	259,025	259,025	241,662	17,363
Total Expenditures	<u>6,605,025</u>	<u>6,605,025</u>	<u>5,871,186</u>	<u>733,839</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(431,062)</u>	<u>(431,062)</u>	<u>79,593</u>	<u>(957,023)</u>
Fund Balance/Retained Earnings Beginning of Year	<u>1,250,940</u>	<u>1,250,940</u>	<u>1,121,950</u>	
Fund Balance/Retained Earnings End of Year	<u>\$ 819,878</u>	<u>\$ 819,878</u>	<u>\$ 1,201,543</u>	<u>\$ (957,023)</u>

See Accompanying Notes to Financial Statements

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional area level, not at the fund or fund type level. This level of control is at a level higher than the individual fund. It is necessary, therefore, to aggregate the expenditures of governmental fund types with expenses of proprietary fund types on a functional area basis and to compare such functional area totals to functional area budgeted totals in order to demonstrate legal compliance with budget. The Code of Iowa also provides that District disbursements in the General Fund may not exceed the amount authorized by the school finance formula.

The District's legal compliance for budget to actual comparison is specified in the Code of Iowa and is for expenditures by functional area. The District budgets on a cash basis. The legal level of control is at the aggregated function level, not at the fund or fund type level. Budgets are prepared for all funds. During the fiscal year 2004, there were no budget amendments.

The following schedule demonstrates the District's legal compliance to the budget.

Function	Original and Final Budget	Actual (Cash Basis)	Variance Favorable (Unfavorable)
Instruction	\$ 4,408,000	\$ 3,952,938	\$ 455,062
Support Services	2,309,050	1,883,752	425,298
Non-instructional Programs	240,000	196,762	43,238
Other Expenditures	684,025	787,045	(103,020)
	<u>\$ 7,641,075</u>	<u>\$ 6,820,497</u>	<u>\$ 820,578</u>

As noted previously, the actual results of operations are presented in accordance with generally accepted accounting principles, which differ in certain respects from those practices used in the preparation of the 2003-2004 budget. For purposes of preparing the budget comparison above, the actual expenses have been adjusted to the cash basis, which is consistent with the District's budgeted expenditures/expenses. The adjustments required to convert the expenses/expenditures to cash basis at the end of the year are as follows:

	Governmental Fund Types		
		General	
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 5,950,779	\$ 28,430	\$ 5,979,209
Expenditures	5,871,186	(115,218)	5,755,968
Net	79,593	143,648	223,241
Beginning Fund Balance	1,121,950	(475,073)	646,877
Ending Fund Balance	<u>\$ 1,201,543</u>	<u>\$ (331,425)</u>	<u>\$ 870,118</u>

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2004

Governmental Fund Types

	<u>Non Major Funds</u>		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 831,311	\$ 31,375	\$ 862,686
Expenditures	752,549	35,099	787,648
Net	78,762	(3,724)	75,038
Beginning Fund Balance	140,250	(27,456)	112,794
Ending Fund Balance	<u>\$ 219,012</u>	<u>\$ (31,180)</u>	<u>\$ 187,832</u>

Governmental Fund Types

	<u>Totals</u>		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 6,782,090	\$ 59,805	\$ 6,841,895
Expenditures	6,623,735	(80,119)	6,543,616
Net	158,355	139,924	298,279
Beginning Fund Balance	1,262,200	(502,529)	759,671
Ending Fund Balance	<u>\$ 1,420,555</u>	<u>\$ (362,605)</u>	<u>\$ 1,057,950</u>

Proprietary Fund Type

	<u>Enterprise</u>		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 223,441	\$ 39,590	\$ 263,031
Expenses	196,762	33,286	230,048
Net	26,679	6,304	32,983
Beginning Net Assets	(15,146)	15,813	667
Prior Period Adjustment		5,815	5,815
Beginning Net Assets, Restated	(15,146)	21,628	6,482
Ending Net Assets	<u>\$ 11,533</u>	<u>\$ 22,595</u>	<u>\$ 39,465</u>

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OTHER SUPPLEMENTARY INFORMATION

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SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
Year Ended June 30, 2004

Schedule 1

Revenues:	
Local Sources:	
Local Tax:	
Property Tax	\$ 2,679,748
Mobile Home Tax	102
Surtax	115,889
	<u>2,795,739</u>
Other Local Sources:	
Interest on Investments	18,206
Tuition from Other Districts	107,411
Rent	3,540
Miscellaneous	59,423
	<u>188,580</u>
	<u>2,984,319</u>
Intermediate Sources:	
Services Provided AEA	50,912
State Sources:	
Foundation Aid-District's Share	2,099,598
Instructional Support State Aid	16,204
Beginning Teacher Induction	5,200
Teachers Compensation Allocation	58,804
Educational Excellence Program:	
Phase I	62,009
Phase II	61,694
Non-Public Transportation Aid	57,540
Non-Public Textbook Aid	1,081
Revenue in Lieu of Taxes - Military Credit	2,031
Vocational Education Aid	6,113
Iowa Early Intervention Block Grant	40,621
AEA Flow-Through	241,662
	<u>2,652,557</u>
Federal Sources:	
Title I Grants to Local Educational Agencies	125,842
Class Size Reduction	46,452
Medical Assistance Program	166
Grants for State Assessments & Related Activities (Title VI A Program)	4,368
Schoolwide Positive Behavior Support Grant	6,248
Comprehensive School Reform Grant	50,000
Fund for the Improvement of Education	776
Safe and Drug-Free Schools and Communities-States Grants	4,360
Innovative Education Program Strategies (Title VI Program)	3,968
Vocational Education - Basic Grants to States	12,486
Special Education - Grants to States	36,755
	<u>291,421</u>
Total Revenue	<u>\$ 5,979,209</u>

Continued

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund - Continued
Year Ended June 30, 2004

Schedule 1 (Continued)

Expenditures:

Instruction:

Regular Instruction:

Salaries	\$ 1,529,032
Benefits	386,972
Services	207,074
Supplies	101,722
Property	19,563
Other	8,067
	<u>2,252,430</u>

Special Education Instruction:

Salaries	417,138
Benefits	117,052
Services	526,801
Supplies	5,486
Property	5,258
	<u>1,071,735</u>

Vocational Instruction:

Salaries	138,014
Benefits	37,569
Supplies	6,663
Property	153
	<u>182,399</u>

Co-curricular Program Instruction:

Salaries	138,060
Benefits	24,682
Services	1,447
Supplies	144
Property	2,795
Other	110
	<u>167,238</u>

Nonpublic Instruction:

Supplies	<u>1,463</u>
----------	--------------

Total Instruction

3,675,265

Support Services

Student Services:

Guidance Services:

Salaries	191,969
Benefits	50,954
Services	3,614
Supplies	2,648
	<u>249,185</u>

Health Services:

Salaries	19,799
Benefits	6,062
Services	17,719
Supplies	3,964
	<u>47,544</u>

Total Student Services

\$ 296,729

Continued

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund - Continued
Year Ended June 30, 2004

Schedule 1 (Continued)

Expenditures (Continued):

Support Services:

Instructional Staff Services:

Improvement of Instruction:

Salaries	\$ 83,129
Benefits	23,518
Services	17,352
Supplies	23,897
Property	54,340
	<u>202,236</u>

Library/Media Services:

Salaries	74,582
Benefits	19,222
Services	109
Supplies	15,350
Property	152
	<u>109,415</u>

Total Instructional Staff Services

311,651

Administration Services:

Board of Education Services:

Salaries	2,100
Benefits	281
Services	44,067
Supplies	2,873
Other	3,607
	<u>52,928</u>

Executive Administration Services:

Salaries	92,908
Benefits	18,486
Services	2,601
Supplies	3,344
Property	3,880
Other	1,055
	<u>122,274</u>

Building Administration

Salaries	158,862
Benefits	48,606
Services	6,619
Supplies	6,356
Other	1,497
	<u>221,940</u>

Business Administration

Salaries	41,049
Benefits	16,623
Services	14,325
Supplies	16,851
Property	2,375

Iowa School Cash Anticipation Program:

Interest	6,809
Issuance Cost	5,811
	<u>103,843</u>

Total Administration Services

\$ 500,985

Continued

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund - Continued
Year Ended June 30, 2004

Schedule 1 (Continued)

Expenditures (Continued):

Support Services:

Plant Operation and Maintenance:

Salaries	208,303
Benefits	90,520
Services	31,288
Supplies	134,306
Property	1,115
	<u>465,532</u>

Student Transportation:

Salaries	149,553
Benefits	36,810
Services	22,140
Supplies	54,045
Other	1,596
	<u>264,144</u>

Total Support Services

1,839,041

Other Expenditures:

AEA Flow-Through	<u>241,662</u>
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Total Expenditures

5,755,968

Excess of Revenues Over Expenditures

223,241

Fund Balance Beginning of Year

646,877

Fund Balance End of Year

\$ 870,118

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SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
Governmental Nonmajor Funds
June 30, 2004

	Special Revenue Funds			
	Management Levy	Physical Plant and Equipment Levy	Student Activity	Ray Ginger Scholarship
Assets				
Cash and Pooled Investments	\$ 86,930		\$ 47,675	\$ 2,306
Receivables:				
Property Tax	2,475	5,716		
Succeeding Year Property Tax	150,000	294,832		
Accrued Interest			15	
Due from Other Governments				
Inventory			650	
Total Assets	239,405	300,548	48,340	2,306
Liabilities and Equity				
Liabilities:				
Accounts Payable and Accrued Liabilities	2,207	9,424	400	
Early Retirement Payable	8,000			
Due to Other Funds		21,023		
Unearned Revenue	89	205		
Deferred Revenue - Succeeding Year				
Property Taxes	150,000	294,832		
Total Liabilities	160,296	325,484	400	
Fund Balances:				
Reserved for:				
Scholarships				
Inventory			650	
Unreserved for:				
Special Revenue Fund	79,109	(24,936)	47,290	2,306
Capital Project Fund				
Total Fund Balances	79,109	(24,936)	47,940	2,306
Total Liabilities and Equity	\$ 239,405	\$ 300,548	\$ 48,340	\$ 2,306

Schedule 2

		Permanent Fund		Capital Projects Fund		
Foundation		Dell Scholarship		Capital Project LOST		Debt Service Fund
						Total
\$	4,950	\$	2,633	\$	95,541	\$ 240,035
						8,191
						444,832
		5				20
				28,607		28,607
						650
	4,950		2,638		124,148	722,335
					48,323	60,354
						8,000
						21,023
						294
						444,832
					48,323	534,503
			2,638			2,638
						650
	4,950					108,719
					75,825	75,825
	4,950		2,638		75,825	187,832
\$	4,950	\$	2,638	\$	124,148	\$ 722,335

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Governmental Nonmajor Funds
For the Year Ended June 30, 2004

	Special Revenue Funds			
	Management Levy	Physical Plant and Equipment Levy	Student Activity	Ray Ginger Memorial
Revenue:				
Local Sources:				
Local Tax	\$ 149,707	\$ 425,982		
Other	402	54	\$ 155,455	\$ 7
State Sources	128	301		
Total Revenue	150,237	426,337	155,455	7
Expenditures:				
Current:				
Instruction:				
Regular Instruction	20,849			
Other Instruction			161,864	
Support Services:				
Student Services				
Administration Services	72,977	18,917		
Operation and Maintenance	18,697			
Transportation Services	12,401	86,318		
Other Expenditures:				
Facilities Acquisition and Construction		325,234		
Long-term Debt:				
Principal				
Interest and Fiscal Charges				
Total Expenditures	124,924	430,469	161,864	
Excess(Deficiency) of Revenues Over Expenditures	25,313	(4,132)	(6,409)	7
Other Financing Sources (Uses):				
Transfers In				
Transfers Out		(15,921)		
Total Other Financing Sources (Uses)		(15,921)		
Net Change in Fund Balances	25,313	(20,053)	(6,409)	7
Fund Balances - Beginning of Year	53,796	(4,883)	54,349	2,299
Fund Balances - End of Year	\$ 79,109	\$ (24,936)	\$ 47,940	\$ 2,306

Schedule 3

Permanent Fund		Capital Project Fund		
Foundation	Dell Scholarship	Capital Project LOST	Debt Service	Total
\$ 7,000	\$ 55	\$ 123,948 201		\$ 699,637 163,174 429
7,000	55	124,149		863,240
				20,849 161,864
6,550	150			6,700 91,894 18,697 98,719
		48,324		373,558
			\$ 11,454 4,467	11,454 4,467
6,550	150	48,324	15,921	788,202
450	(95)	75,825	(15,921)	75,038
			15,921	15,921 (15,921)
			15,921	-
450	(95)	75,825		75,038
4,500	2,733			112,794
\$ 4,950	\$ 2,638	\$ 75,825	\$ -	\$ 187,832

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Schedule of Individual Student Activity Accounts
For the Year Ended June 30, 2004

				Schedule 4
	Balance June 30, 2003	Revenues	Expenditures	Balance June 30, 2004
Senior High				
General Athletics	\$ 4,488	\$ 44,497	\$ 52,459	\$ (3,474)
Weight Room Club		500		500
HS Football Club	4,348		2,190	2,158
HS General Athletics Resale	996	256	256	996
HS Student Council	29	5,645	4,547	1,127
FFA	5,873	27,362	26,968	6,267
Spanish Club	663			663
HS Cheerleaders	(782)	3,453	1,856	815
HS Science Club	213			213
National Honor Society	782	767	983	566
Close-Up	35			-
HS Marketing Club	623			623
HS Art Club	400		180	220
Dinner Theater Club	4,326	2,915	2,504	4,737
HS Industrial Arts Club	5	500		505
HS Instrumental Music Resale	(1,353)	178	901	(2,076)
HS Vocal Music Resale	948	527	1,261	214
Renaissance	1,167	11,616	11,724	1,094
Yearbook Club	14,499	12,102	10,699	15,902
HS Speech Club	796	20	588	228
JH Student Council	4,736	9,642	8,362	6,016
Primghar Book Club	442	499	941	-
MS Student Council	4,185	23,605	24,295	3,563
MS Marketing	1,661	1,819	1,365	2,115
HS Musical	115		73	42
Paullina Elementary	279	3,258	3,469	-
Kindergarten Activity		400	200	200
General Activity Account	1,798	517	1,640	675
Clothes For Kids	525		455	70
Computers For Kids	56			56
Class of 2003	(131)	131		-
Class of 2004	607	600	705	502
Class of 2005	1,440	4,046	2,790	2,696
Class of 2006	580		423	157
Class of 2007		600	30	570
Totals - All Activity Funds	\$ 54,349	\$ 155,455	\$ 161,864	\$ 47,940

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Comparison of Taxes and Intergovernmental Revenues and Receipts
For the Years Ended June 30, 2004, 2003, 2002, 2001

Schedule 5

	Modified Accrual Basis of Accounting			
	2004	2003	2002	2001
Local Sources:				
Local Taxes:				
Property Taxes	\$ 3,178,156	\$ 2,751,441	\$ 2,571,794	\$ 2,588,452
Mobile Home Taxes	121	111	133	164
Surtaxes	193,149	216,483	212,893	182,156
Local Option Sales and Services Taxes	123,950			
	<u>3,495,376</u>	<u>2,968,035</u>	<u>2,784,820</u>	<u>2,770,772</u>
State Sources:				
State Foundation Aid	2,099,598	2,160,993	2,200,201	2,212,695
School Improvement Technology Funding			19,607	52,031
Instructional Support State Aid	16,204	17,323	19,633	22,314
Beginning Teacher Induction	5,200	3,900	6,500	
Evaluator Training Program		2,000		
Teachers Compensation Allocation	58,804	52,885	52,232	
Educational Excellence Program:				
Phase I	62,009	66,051	66,051	67,352
Phase II	61,694	63,206	64,449	66,196
Phase III		15,705	36,830	36,882
Non-Public Transportation	57,540	22,303	48,382	47,845
Non-Public Textbook Aid	1,081	2,843		
Vocational Education Aid	6,113		6,766	3,570
Revenue in Lieu of Taxes - Military Credit	2,031	2,332	2,486	3,699
Iowa Early Intervention Block Grant	40,621	40,292	43,243	28,386
Lunch and Breakfast program claims	3,608	3,960	3,649	3,938
AEA Flow-Through	241,662	259,229	273,806	8,835
Other State Aid	429		20,032	271,549
	<u>2,656,594</u>	<u>2,713,022</u>	<u>2,863,867</u>	<u>2,825,292</u>
Federal Sources:				
Title I Grants to Local Educational Agencies	125,842	117,685	111,810	97,182
Class Size Reduction	46,452	49,087	31,381	26,031
Safe and Drug Free Schools and Communities -				
State Grants	4,360	4,158	2,972	3,019
Medical Assistance Program	166	16,210		
Innovative Education Program Strategies				
(Title V Program)	3,968	4,138	4,410	4,115
Grants for State Assessments & Related Activities -				
(Title VI A Program)	4,368	3,640		
Star Schools			14,100	
Fund for the Improvement of Education	776	19,985		
Technology Literacy Challenge Fund Grants			26,892	
National School Lunch Program	78,383	72,746	65,487	64,895
Schoolwide Positive Behavior Support Grant	6,248	8,850		
Goals 2000 - State Grants		2,325	36,000	45,000
Special Education - Grants to States	36,755	6,901	15,295	
School Breakfast Program	8,007	6,900	9,012	8,837
Iowa Demonstration Grant				25,000
Food Distribution	39,672	35,980	35,060	17,975
Vocational Education-Basic Grants to States	12,486	15,046	14,533	13,851
Eisenhower Professional Development Grant		2,436	1,967	
Other		22	90	17,072
Comprehensive School Reform Grant	50,000			
	<u>417,483</u>	<u>366,109</u>	<u>369,009</u>	<u>322,977</u>
Total	\$ 6,569,453	\$ 6,047,166	\$ 6,017,696	\$ 5,919,041

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

There were no prior year audit findings.

REPORTABLE CONDITIONS:

II-A-04 Financial Accounting – Segregation of Duties

- A. Observation – The School District accountant is involved in almost all phases of the finance operations, including check preparation, preparation of journal entries, as well as financial reporting and statements. We did note that invoices/claims are not paid until reviewed by the superintendent.

Recommendation – With a limited number of personnel, segregation of duties is difficult. The School District has implemented management review procedures which we feel aid in improving the internal controls of the School District. However, we comment that this weakness exists and the duties of the accountant should be continually monitored by management.

Response – The District feels that additional personnel would not be cost effective. However, management will continue to monitor transactions on a regular basis.

Conclusion – Response accepted.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting:

- III-A-04 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts stated in the resolution were not exceeded during the year.
- III-B-04 Certified Budget – Disbursements for the year ended June 30, 2004, did not exceed the amounts budgeted.
- III-C-04 Questionable Disbursements – No disbursements were noted that they may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-04 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- III-E-04 Business Transactions – There were no business transactions between the District and District officials or employees during the year ended June 30, 2004.
- III-F-04 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-G-04 Board Minutes – No transactions requiring Board approval that had not been approved by the Board were noted.
- III-H-04 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- III-I-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- III-J-04 Certified Annual Report – The Certified Annual Report was not filed timely with the Department of Education.
- Recommendation – We recommend that the District file the Certified Annual Report by September 15 as required by the State in future years.
- Response – The District will take the steps necessary to ensure that the report is filed timely in the future.
- Conclusion – Response accepted.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting – (Continued):

III-K-04 Financial Condition – The District had deficit balances in the Physical Plant and Equipment Levy Fund, as well as several student activity accounts at June 30, 2004.

Recommendation – The District should continue to investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response – The District is continuing to investigate alternatives to eliminate these deficits at the end of the fiscal year.

Conclusion – Response accepted.

III-L-04 Business Transactions – Business transactions between the District and District officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Paul Miller, Employee's Spouse Owner of Whiskey Creek Log Homes	Contractor	\$ 13,230
John Muller, Employee's Spouse Owner of Muller Furniture	Contractor	\$ 8,500

These transactions may represent a conflict of interest and the District should contact legal council for determination.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education of the
South O'Brien Community School District

We have audited the basic financial statements of the SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT as of and for the year ended June 30, 2004, and have issued our report thereon dated August 20, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance:

As part of obtaining reasonable assurance about whether the South O'Brien Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered South O'Brien Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect South O'Brien Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-04.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe II-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the board of education, management employees and citizens of South O'Brien Community School District and other parties to whom the South O'Brien Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of South O'Brien Community School District during the course of our audit. If you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

Williams & Company, P.C.
Certified Public Accountants

Le Mars, Iowa
August 20, 2004